

Q & A

Q. What is going to be the return in 2003 for the Stable Return Fund?

A. Based on current reinvestment rates, the Stable Return Fund is expected to have a return between 4.3% and 4.8% in 2003.

Q. What is the equity wash provision?

A. The equity wash provision prohibits a transaction out of the Stable Return Fund directly to any “competing” fund. Any transfer must first be placed in an equity fund for a period of 90 days, and then it may be moved to any fund offered within the program. Competing funds, the Vanguard Money Market Reserves, the New Income Fund, and the Vanguard Bond Index Fund-Total Bond Market Portfolio, are expected to exhibit similar characteristics as the Stable Return Fund with respect to low volatility in value over the intermediate to longer term.

Q. Why does the equity wash provision exist?

A. The provision is significant to the preservation of the fund. The Stable Return Fund is not a mutual fund sold on the open market; it's a private portfolio of insurance contracts and synthetic investment products managed specifically for the State of Illinois Deferred Compensation Plan participants. The fund is not intended to be a temporary investment for participants but to offer consistent positive returns with little volatility. Without the provision, the portfolio construction would necessitate a much larger cash holding, thereby reducing the potential return.

Your Savings Need to Last Throughout Your Retirement

When we think of investing for retirement, we think about the day when we retire—usually between ages 55 and 65. If you are in your 20s or 30s, that day may feel like a long way off.

It is great to be thinking that far ahead. But you need to be thinking even farther ahead—to the end of retirement.

Why? Because your retirement savings have to last throughout your whole retirement, no matter how you take the money—lump-sum payments, annuity, or a combination.

Think Really Long Term

Whether you are taking an early retirement sometime between age 55 and 65, or retiring after age 65, you need to readjust your focus on a farther horizon. Remember, your pension and savings are going to need to last throughout your whole retirement. You don't want to risk outliving your assets.

So, the question remains: How long will your retirement last? With medical advances, Americans are living longer than we ever thought possible. For a rough estimate, assume you will live to age 90.

Save as Much as Possible Now

Time can be a great ally in achieving your retirement savings goal. The earnings from your investments are reinvested, which means they are rolled back into your account to buy more units of your funds. And because your retirement account is tax-deferred, your account grows faster than a taxable account with similar yields. Tax-deferred means tax on your account's earnings is postponed until you start to withdraw from the account. And then, you pay no Illinois state tax.



(see note on next page)

Income Tax Information

Your taxable income was reduced thanks to your participation in the Deferred Compensation Plan. You only report the wages shown in Box 1 of your W-2 statement on your income tax form. Box 1 wages have been reduced by the total amount of your 2002 deferrals and any other tax-deferred and tax-exempt deductions.

Your W-2 statement will reflect contributions to the Deferred Compensation Plan (457). If the “Deferred Compensation” box in the lower right-hand corner of the W-2 is marked “X,” it means that you contributed to the Deferred Compensation Plan in 2003; the amount of your deferral is indicated in Box 12 with a “G” coding. Remember, you do not enter your deferred compensation deferrals anywhere on your income tax form.

Special Note

Since all deferrals, gains, and losses are not subject to federal taxes until distribution, you cannot declare the fees assessed against your account.

For Participants on Payout

If you received a payment from your account during the 2002 tax year, you will receive a separate 1099-R from our recordkeeper, T. Rowe Price.

For federal income tax purposes, your deferred compensation plus any earnings is taxable as pension income when it is distributed. Deferred compensation distributions are reported along with other taxable pension income on line 16b of your income tax Form 1040. Deferred compensation distributions are not subject to State of Illinois income tax. Report the distribution in the “federally taxed retirement and Social Security” subtraction section on line 5 of your Illinois return.



Your Savings Need to Last Throughout Your Retirement (continued from page 1)

Investing for a Lifetime

Once you have an idea of how long your retirement savings will last, start thinking of the day you retire as a starting point. It's the day you may start taking installment payments from your account. Meanwhile, throughout your retirement, funds not withdrawn from your retirement account can remain invested—for years or perhaps decades.

Use the “risk/reward trade off” as your investing rule of thumb: The more risk you take, the better the chance for a higher return or greater loss. If you have decades until you need all your money, you can usually weather the volatility that higher-risk investments, like stock funds, carry.

Why the Plan is a Great Way to Save

The State of Illinois Deferred Compensation Plan provides tax advantages to help you save more. Participating in the Plan will not affect the amount of your Social Security benefits or pension.

Your contributions to the Plan are deducted directly from your paycheck before you pay taxes on your income. That could mean more money in your pocket today than if you saved outside the Plan.

Telephone Numbers

Deferred Compensation:

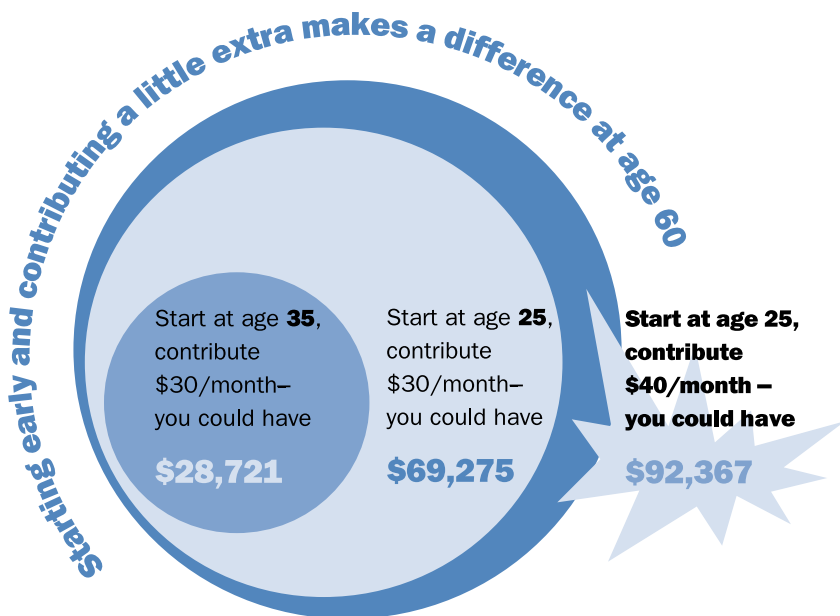
Plan Rules/Options Information
800.442.1300
217.782.7006
TDD/TTY: 800.526.0844
Internet: www.state.il.us/cms/employee/defcom

Recordkeeper:

T. Rowe Price Retirement Plan Services Account Value
Information and Investment Changes: 888.457.5770
TDD/TTY: 800.521.0325
Internet Access: 800.541.3022
Internet: rps.troweprice.com

Fund Performance:

Liberty Acorn Fund: 800.922.6769
Ariel Fund: 800.292.7435
Fidelity Funds: 800.544.8888
Provident Investment Counsel: 800.618.7643
Stable Return Fund/PRIMCO: 800.572.3819
T. Rowe Price Funds: 800.922.9945
Vanguard Funds: 800.523.8066
Wells Fargo: 866.561.1153



This example is for illustrative purposes only. It is not representative of an investment in any of your Plan's investment options. It assumes an 8% rate of return with contributions made and compounded monthly.

Income and Price Information

4th Quarter 2002

Transaction Date	Vanguard Bond Index	T. Rowe Price New Income ¹	Fidelity Puritan ²	Fidelity ³	Vanguard Inst. Index ⁴	Wells Fargo Lg. Co. Growth	Liberty Acorn	Ariel ⁵	T. Rowe Price Int'l Stock ⁶	PIC Small Cap Growth
10/01/02	\$10.33	\$8.81	\$15.25	\$21.47	\$77.55	\$33.89	\$14.55	\$35.73	\$8.44	\$10.27
10/02/02	\$10.33	\$8.82	\$15.01	\$21.08	\$75.74	\$32.86	\$14.31	\$34.85	\$8.48	\$10.11
10/03/02	\$10.33	\$8.82	\$14.91	\$20.88	\$74.92	\$31.91	\$14.15	\$34.78	\$8.42	\$9.85
10/04/02	\$10.32	\$8.80	\$14.68	\$20.47	\$73.24	\$31.29	\$13.86	\$34.02	\$8.28	\$9.63
10/07/02	\$10.33	\$8.80	\$14.51	\$20.13	\$71.84	\$30.66	\$13.52	\$33.25	\$8.11	\$9.35
10/08/02	\$10.31	\$8.77	\$14.61	\$20.51	\$73.08	\$31.70	\$13.70	\$33.62	\$8.00	\$9.52
10/09/02	\$10.33	\$8.78	\$14.32	\$20.02	\$71.10	\$31.03	\$13.34	\$32.38	\$7.94	\$9.29
10/10/02	\$10.30	\$8.76	\$14.62	\$20.56	\$73.59	\$32.33	\$13.60	\$32.98	\$8.09	\$9.60
10/11/02	\$10.25	\$8.73	\$14.96	\$21.30	\$76.47	\$33.90	\$13.96	\$33.84	\$8.40	\$9.88
10/14/02	\$10.26	\$8.74	\$15.00	\$21.52	\$77.02	\$34.26	\$14.04	\$33.89	\$8.35	\$10.02
10/15/02	\$10.19	\$8.68	\$15.44	\$22.45	\$80.67	\$36.06	\$14.53	\$34.89	\$8.82	\$10.37
10/16/02	\$10.17	\$8.67	\$15.19	\$21.97	\$78.74	\$34.86	\$14.26	\$34.07	\$8.71	\$10.14
10/17/02	\$10.14	\$8.65	\$15.40	\$22.49	\$80.49	\$35.96	\$14.68	\$34.93	\$8.87	\$10.44
10/18/02	\$10.14	\$8.65	\$15.45	\$22.63	\$80.96	\$36.06	\$14.71	\$34.90	\$8.85	\$10.49
10/21/02	\$10.11	\$8.63	\$15.59	\$22.93	\$82.37	\$36.78	\$14.91	\$35.49	\$8.85	\$10.68
10/22/02	\$10.10	\$8.62	\$15.48	\$22.65	\$81.49	\$36.18	\$14.70	\$34.94	\$8.78	\$10.49
10/23/02	\$10.11	\$8.63	\$15.54	\$22.76	\$82.04	\$36.76	\$14.85	\$35.20	\$8.63	\$10.61
10/24/02	\$10.14	\$8.66	\$15.42	\$22.38	\$80.79	\$36.31	\$14.76	\$34.53	\$8.72	\$10.52
10/25/02	\$10.17	\$8.68	\$15.58	\$22.73	\$82.18	\$37.31	\$14.99	\$35.06	\$8.75	\$10.65
10/28/02	\$10.18	\$8.69	\$15.55	\$22.55	\$81.50	\$36.61	\$14.85	\$34.50	\$8.88	\$10.56
10/29/02	\$10.23	\$8.74	\$15.47	\$22.40	\$80.77	\$36.19	\$14.79	\$34.55	\$8.62	\$10.55
10/30/02	\$10.23	\$8.73	\$15.61	\$22.64	\$81.57	\$36.40	\$14.99	\$34.53	\$8.77	\$10.66
10/31/02	\$10.25	\$8.76	\$15.57	\$22.50	\$81.13	\$36.37	\$15.04	\$34.56	\$8.87	\$10.58
11/01/02	\$10.23	\$8.75	\$15.74	\$22.83	\$82.52	\$37.08	\$15.30	\$35.00	\$8.86	\$10.75
11/04/02	\$10.22	\$8.73	\$15.80	\$22.94	\$83.20	\$37.54	\$15.46	\$34.89	\$9.08	\$10.88
11/05/02	\$10.21	\$8.73	\$15.88	\$23.17	\$83.85	\$37.87	\$15.42	\$34.73	\$9.15	\$10.85
11/06/02	\$10.24	\$8.75	\$15.99	\$23.36	\$84.63	\$38.08	\$15.54	\$35.09	\$9.11	\$11.08
11/07/02	\$10.29	\$8.80	\$15.78	\$22.87	\$82.71	\$37.20	\$15.29	\$34.63	\$9.04	\$10.76
11/08/02	\$10.31	\$8.81	\$15.73	\$22.75	\$81.99	\$36.87	\$15.18	\$34.59	\$8.96	\$10.61
11/11/02	\$10.31	\$8.81	\$15.54	\$22.32	\$80.30	\$35.99	\$14.85	\$34.06	\$8.84	\$10.32
11/12/02	\$10.30	\$8.80	\$15.60	\$22.39	\$80.92	\$36.65	\$15.02	\$34.32	\$8.90	\$10.52
11/13/02	\$10.30	\$8.81	\$15.55	\$22.32	\$80.91	\$36.76	\$15.01	\$34.44	\$8.83	\$10.60
11/14/02	\$10.26	\$8.76	\$15.78	\$22.84	\$82.91	\$38.04	\$15.29	\$35.18	\$8.94	\$10.88
11/15/02	\$10.25	\$8.76	\$15.86	\$22.98	\$83.43	\$38.42	\$15.38	\$35.51	\$9.08	\$10.88
11/18/02	\$10.26	\$8.77	\$15.79	\$22.77	\$82.56	\$37.97	\$15.31	\$35.20	\$9.10	\$10.80
11/19/02	\$10.28	\$8.80	\$15.80	\$22.72	\$82.24	\$37.21	\$15.20	\$35.06	\$9.06	\$10.65
11/20/02	\$10.24	\$8.77	\$15.95	\$23.15	\$83.84	\$38.11	\$15.45	\$35.57	\$9.03	\$10.91
11/21/02	\$10.22	\$8.75	\$16.18	\$23.56	\$85.65	\$38.90	\$15.76	\$36.12	\$9.26	\$11.18
11/22/02	\$10.21	\$8.75	\$16.14	\$23.42	\$85.35	\$38.83	\$15.78	\$36.36	\$9.31	\$11.23
11/25/02	\$10.21	\$8.75	\$16.18	\$23.51	\$85.56	\$38.78	\$15.89	\$36.45	\$9.27	\$11.35
11/26/02	\$10.25	\$8.78	\$15.99	\$23.01	\$83.79	\$37.87	\$15.70	\$36.21	\$9.10	\$11.02
11/27/02	\$10.19	\$8.73	\$16.25	\$23.64	\$86.14	\$39.11	\$16.06	\$37.02	\$9.26	\$11.37
11/29/02	\$10.21	\$8.75	\$16.27	\$23.55	\$85.91	\$38.87	\$16.01	\$36.76	\$9.36	\$11.29
12/02/02	\$10.21	\$8.75	\$16.26	\$23.51	\$85.75	\$39.07	\$16.08	\$36.98	\$9.33	\$11.30
12/03/02	\$10.21	\$8.75	\$16.12	\$23.20	\$84.48	\$38.46	\$15.89	\$36.62	\$9.20	\$11.06
12/04/02	\$10.23	\$8.77	\$16.08	\$23.14	\$84.22	\$38.28	\$15.84	\$36.50	\$9.11	\$10.91
12/05/02	\$10.25	\$8.78	\$15.99	\$22.89	\$83.21	\$37.69	\$15.74	\$36.12	\$9.01	\$10.85
12/06/02	\$10.26	\$8.79	\$16.06	\$23.00	\$83.74	\$37.84	\$15.81	\$36.31	\$9.04	\$10.88
12/09/02	\$10.28	\$8.80	\$15.85	\$22.55	\$81.88	\$36.81	\$15.49	\$35.66	\$8.90	\$10.55
12/10/02	\$10.28	\$8.81	\$15.98	\$22.81	\$83.02	\$37.26	\$15.68	\$36.08	\$8.91	\$10.73
12/11/02	\$10.30	\$8.82	\$16.01	\$22.83	\$83.09	\$37.25	\$15.68	\$36.06	\$8.99	\$10.72
12/12/02	\$10.29	\$8.82	\$15.99	\$22.75	\$82.78	\$37.37	\$15.74	\$36.07	\$8.98	\$10.72
12/13/02	\$10.28	\$8.81	\$15.75	\$22.48	\$81.67	\$36.58	\$15.52	\$35.59	\$8.90	\$10.51
12/16/02	\$10.25	\$8.79	\$16.00	\$23.00	\$83.60	\$37.49	\$15.73	\$36.15	\$9.06	\$10.74
12/17/02	\$10.26	\$8.80	\$15.94	\$22.79	\$82.93	\$37.13	\$15.63	\$35.83	\$8.99	\$10.60
12/18/02	\$10.29	\$8.82	\$15.82	\$22.55	\$81.83	\$36.53	\$15.43	\$35.55	\$8.73	\$10.34
12/19/02	\$10.33	\$8.85	\$15.78	\$22.41	\$81.22	\$36.03	\$15.39	\$35.11	\$8.73	\$10.26
12/20/02	\$10.33	\$8.85	\$15.92	\$22.66	\$82.28	\$36.52	\$15.57	\$35.39	\$8.82	\$10.42
12/23/02	\$10.32	\$8.85	\$15.91	\$22.72	\$82.43	\$36.62	\$15.60	\$35.82	\$8.80	\$10.50
12/24/02	\$10.34	\$8.86	\$15.85	\$22.60	\$81.97	\$36.40	\$15.55	\$35.73	\$8.86	\$10.47
12/26/02	\$10.34	\$8.86	\$15.86	\$22.52	\$81.31	\$36.18	\$15.58	\$35.89	\$8.90	\$10.56
12/27/02	\$10.38	\$8.89	\$15.74	\$22.17	\$80.03	\$35.60	\$15.43	\$34.96	\$8.74	\$10.44
12/30/02	\$10.39	\$8.90	\$15.76	\$22.27	\$80.40	\$35.80	\$15.43	\$35.11	\$8.82	\$10.37
12/31/02	\$10.38	\$8.89	\$15.79	\$22.26	\$80.45	\$35.71	\$15.50	\$35.24	\$8.88	\$10.42

¹New Income earnings are calculated using daily income accruals. They credit earnings to the first working day of the following month. Therefore, 31 days were credited for October, 31 days were credited for November, and 31 days were credited for December.

²Puritan declared a distribution of \$.14 payable December 15, 2002, to shareholders of record on December 12, 2002, using a share value of \$15.75.

³Fidelity declared a distribution of \$.07 payable December 20, 2002, to shareholders of record on December 19, 2002, using a share value of \$22.66.

⁴Vanguard Institutional Index Fund declared a distribution of \$.41 payable December 26, 2002, to shareholders of record on December 24, 2002, using a share value of \$81.51.

⁵Ariel Fund declared a distribution of \$.52027 payable December 27, 2002, to shareholders of record on December 26, 2002, using a share value of \$54.96.

⁶T. Rowe Price International Stock Fund declared a distribution of \$.11 payable December 18, 2002, to shareholders of record on December 17, 2002, using a share value of \$8.75.